



CALIFORNIA'S TAX CREDIT ALLOCATION COMMITTEE PROGRAMS

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3 PROGRAMS




- Federal Low Income Housing Tax Credit
- State Housing Tax Credit
- Commercial Revitalization Deduction Program


Resources 2004

☛ This year:

- \$64 million in federal tax credits
- \$70 million in state tax credits
- \$12 million in Commercial Revitalization Deductions



FEDERAL LOW INCOME HOUSING TAX CREDIT PROGRAM



Federal Program History

- Created by Congress in 1986
- Replaced other tax incentives for affordable housing
- Made permanent in 1993
- Now provides deepest federal subsidy for rental housing
- Tax based subsidy, overseen by the IRS
- Managed by the State agencies

A Tax Based Subsidy?

- Instead of spending federal dollars directly on housing, the program encourages private investors to invest in affordable housing:
 - Investors generally corporations
 - They form partnerships with developers for ownership of the developments -- “syndication”
 - They invest money in construction, other costs, and
 - Their investment is repaid with tax credits used to offset their annual tax liability

How it Works

- ✓ Federal government allocates Tax Credits to States
- ✓ States select agencies, prepare plans, establish priorities, award Tax Credits to projects and monitor development process
- ✓ In exchange for Credits, developers agree to maintain the apartments as affordable housing
- ✓ State agencies monitor projects to ensure they comply

How it Works : The “9%” Competition

- Developer applies to TCAC for credits in one of two annual funding rounds
- Competes with other projects
- Winning projects have 2 full years to be completed, and have to meet benchmarks along the way
- At completion TCAC issues forms to allow investors to claim tax benefits, **or**

How it Works : The “4%” Door

- Rather than compete in rounds, developer can ask CDLAC for tax exempt bond cap
- Bond cap brings lower rate financing, and lesser 4% credits that are not taken from state’s Tax Credit Ceiling
- TCAC has to determine that the project is “consistent with the Qualified Allocation Plan”

Calculating the Tax Credit

Total Development Cost	\$10,000,000
- Land	1,500,000
- Financing Costs, Reserves etc.	350,000
= Eligible Basis	\$8,150,000
X Percent of Units Affordable	100%
= Qualified Basis	\$8,150,000
* 9%	\$733,500
X 10 Years (Total Tax Credits)	\$7,335,000
X \$0.85 (Equity pricing) = Net Proceeds	\$6,234,750
= % of Total Development Cost	62%

62% is Not Enough: Other Financing

- Federal Home Loan Bank
- USDA/Rural Housing Services
- HUD/FHA
- Foundations
- HOME Investment Partnership
- CDBG
- State, Local Housing Agency Programs
- Commercial Banks

California's Priorities

Set Asides:

- Non Profit - 10%
- Rural - 20%
- Small Development - 2%
- At-Risk - 5%
- Special Needs/SRO - 2%
- Credit Holdback - 1.5%

Total 40.5%

Geographic Regions

Los Angeles	33%	Orange	8%
Central Region	10%	South & West Bay	6%
North & East Bay	10%	Capital Region	6%
San Diego	10%	Coastal Region	5%
Inland Empire	8%	San Francisco	4%

California's Priorities

🌿 Housing Types:

- Large Family - 65%
- Single Room Occupancy - 10%
- Special Needs - 5%
- Seniors - 15%
- At-Risk - 5%

Federal Housing Tax Credit Production in San Diego

- Since 2000, 21 “9%” Tax Credit projects have been approved by TCAC for San Diego County
 - 190 million in federal subsidy dollars and
 - Over 1,400 affordable housing units
- In addition TCAC and CDLAC approved 49 4% projects
 - 265 million in federal subsidy dollars and
 - Nearly 6,600 affordable housing units

State Program History

- Started in 1997
- Provides similar tax credits, but
 - Set at 30% of basis
 - Run for 4 years
 - Allocation includes 4 year amount
- Allocated along with Federal Tax Credits
- Used in areas ineligible for 130% federal tax credits
- Set at \$35 million originally, and now up to \$70 million each year

State Housing Tax Credit Production in San Diego

- Since 2000, TCAC has allocated \$5.9 million in state tax credits for projects funded in “9%” competition



COMMERCIAL REVITALIZATION DEDUCTION PROGRAM



Program History

- 2000, Congress passed Community Renewal Tax Relief Act to stimulate job growth and economic development in distressed communities
- HUD later designated 5 “Renewal Communities” in California:
 - Parts of San Francisco, Los Angeles and San Diego
 - Cities of Parlier and Orange Cove

Program History

- Act provided \$12 million in income deductions each year, from 2002 to 2009, for each community
- Deductions awarded to businesses that acquire and renovate or rehabilitate existing properties or build property for commercial use
- TCAC designated to operate the program in 2002

How it Works

- ✓ Business partners with renewal community
- ✓ Requests allocation from TCAC
- ✓ Then business can:
 - Deduct half of its qualified expenditures (generally capitalized costs of renovating or building a building) when building is complete, or
 - Claim deductions over a 10 year period.
- ✓ Communities have local contacts for program information

Commercial Revitalization Deduction Program-San Diego

- ✓ San Diego is most active of all 5 Renewal Communities in California
 - To date, 8 projects approved in amounts from \$113,000 to \$10,000,000
 - Include health center, coffee house, bookstore, restaurant, mercado, others
 - Over \$26 million in program benefits brought to San Diego

QUESTIONS?

Contact CTCAC

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Or

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